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RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001364

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STATE FOR SCA/CEN, EEB
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E.O. 12958: DECL: 12/17/2017

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SUBJECT: TURKMENISTAN: CONOCO-PHILLIPS AND CHEVRON UPDATE

REF: A. ASHGABAT 1353

[1](#)B. ASHGABAT 1222

Classified By: Charge Richard E. Hoagland for reason 1.4(b) and (d).

[1](#)1. (C) SUMMARY: The new year is approaching with the two U.S. hydrocarbons firms -- ConocoPhillips and Chevron -- just a few months ago were bullish on perceived new opportunities in Turkmenistan but now resigned to the reality that agreements may still be at least a few months away. In ConocoPhillips' case, the December 12 news that Lukoil had signed an agreement with the Government of Turkmenistan, combined with the failure of ConocoPhillips' president to get a meeting with President Berdimuhamedov, set off alarm bells that Lukoil may be trying to squeeze ConocoPhillips out. And, although Chevron's efforts to register and open up a new office in Ashgabat are proceeding smoothly, the government has yet to respond to Chevron's proposed production sharing agreement. Post does not know enough about the details of ConocoPhillips' partnership agreements with Lukoil to comment on the possibility that the Russian company is seeking to squeeze out ConocoPhillips. However, any understanding between Russia and Berdimuhamedov to keep western hydrocarbon companies out of Turkmenistan would send the worst sort of signals about Turkmenistan's trustworthiness -- and could negatively impact its economic development hopes. One possibility is that Russian Prime Minister Zubkov asked Berdimuhamedov to postpone announcements of any new agreements with western hydrocarbons companies until after Russia's presidential elections. END SUMMARY.

CONOCOPHILLIPS WORRIED ABOUT BEING SQUEEZED OUT OF
TURKMENISTAN

[1](#)2. (C) Raikhan Ismailova, ConocoPhillips' Almaty-based Director of Administration and External Affairs, expressed great concern over a "worrying" series of events that culminated in the December 12 news in Russian-based Interfax about an agreement being signed between Lukoil and the

Government of Turkmenistan, which was subsequently retracted by Lukoil on December 13 (ref a). According to Ismailova, a meeting between ConocoPhillips CEO James Murtha and President Berdimuhamedov that had been set for December 8 was suddenly called off by Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources Bayrammyrat Muradov just a few days prior to the meeting. Subsequent efforts by ConocoPhillips to reset the meeting for December 12, then December 14-15 (while Murtha was still in the region) were met by the statement that President Berdimuhamedov would not be available on these dates, but that maybe Murtha could meet with Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagyev. Unable to meet with Berdimuhamedov (and stating that it did not make sense that he, as the head of a huge international hydrocarbon firm, should not be able to get a presidential meeting when Lukoil CEO Vagit Alikperov could), Murtha returned to the United States without visiting Ashgabat, and has stated that he will not again visit Turkmenistan until he has received an invitation with a concrete meeting date from the president's office.

13. (C) Ismailova also noted that ConocoPhillips had no indication ahead of time of an agreement -- or memorandum of understanding (MOU) -- being signed between Lukoil and the Government of Turkmenistan, and it is unclear what -- if anything -- had been signed. The December 12 Interfax news story set off alarm bells at ConocoPhillips. According to Ismailova, the State Agency's Executive Director, Muradov, was livid when ConocoPhillips called him to ask about the story. Muradov told Lukoil to retract the story, or the government's negotiations with Lukoil would be cut off, leading to Lukoil's subsequent December 13 retraction.

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Ismailova claimed ignorance of any follow-up conversations that her bosses might have had with Lukoil.

14. (C) Ismailova indicated that ConocoPhillips Vice President for Russian and the Caspian Region Don Walette, currently home for the holidays, hopes to visit Ashgabat in early January to sort out the situation. She told Emboff that it is not clear whether Lukoil is planning to squeeze out ConocoPhillips, or whether Turkmenistan is hoping to renegotiate more favorable PSA deals for the three offshore blocks (blocks 19, 20 and 21), which Lukoil/ConocoPhillips had bid on in tandem, now that Gazprom has promised to increase its payments for Turkmenistan's gas. She listed one possible motive for a potential sell-out as the fact that the Ogurji offshore fields (blocks 19 and 20) that ConocoPhillips is supposed to work under its proposed arrangement with Lukoil (ref b) are suspected to be gas-rich, while the Ordekli field that Lukoil would receive is expected to produce primarily oil. She asked for U.S. government assistance in getting Murtha meetings with Berdimuhamedov after the New Year holiday.

CHEVRON: BUSINESS AS USUAL, EVEN IF SLOWER THAN HOPED

15. (C) By contrast, Chevron reported that everything seems to be proceeding normally, if slower than the company had hoped. The firm has hired a local legal firm, Medet, to oversee its registration. There have been no problems, and Chevron expects to be registered in Turkmenistan by early in 2008. Chevron has heard nothing back from Turkmenistan on the firm's production sharing agreement proposal, but Muradov claims that the State Agency is continuing to "work on it." In the meantime, the training programs that Chevron is providing hydrocarbon officials are going well, and the most recent course -- on the commercialization of Turkmenistan's gas sector -- has just concluded.

16. (C) COMMENT: Embassy is not in a position to comment on the possibility that Lukoil is seeking to sell out ConocoPhillips without knowing the details of partnership agreements between the two, and would appreciate any insight

Embassy Moscow might have. Certainly, Alikperov seems to have enough clout in Moscow to be able to exert significant pressure on Turkmenistan, and -- if Russia pushed hard enough to keep westerners out of Turkmenistan -- this might have been part of an understanding Berdimuhamedov reached with Russian Prime Minister Zubkov November 23. However, such an agreement would send the worst sort of signal about Turkmenistan's trustworthiness to the same international community that Berdimuhamedov is currently trying to court. With many experts expressing great doubt about Turkmenistan's ability to boost (or even to maintain at current levels) hydrocarbon production without new investment by Western companies, such a course would doom -- or, at least, greatly delay -- Turkmenistan's plans for economic development. Another possibility is that Berdimuhamedov may have agreed to postpone announcements of any new agreements with Western energy majors until after Russia's March presidential election. Post is seeking a meeting with Petronas, another foreign offshore player, in hopes of gaining additional clarification, including on the agreement/MOU that Lukoil initially was reputed to have signed. END COMMENT.

HOAGLAND